

NEWS RELEASE

For Release

The audit report of Aurelia Municipal Electric Utility for the year ended December 31, 2004 has been released. The report was issued by Hunzelman, Putzier & Co., C.P.A.s and filed with David A. Vaudt, Auditor of State.

A copy of the audit report is available for review in the office of the Auditor of State and the City Clerk's office.

AURELIA MUNICIPAL ELECTRIC UTILITY
INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
DECEMBER 31, 2004

AURELIA MUNICIPAL ELECTRIC UTILITY
INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

DECEMBER 31, 2004

AURELIA MUNICIPAL ELECTRIC UTILITY

AURELIA, IOWA

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AURELIA MUNICIPAL ELECTRIC UTILITY

AURELIA, IOWA

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Marvin Krause	Trustee	January, 2005
Orin Nelson	Trustee	January, 2005
Roger Redig	Trustee	January, 2007
Gordon Grohe	Trustee	January, 2009
Mark Arnold	Trustee	January, 2009

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Aurelia Municipal Electric Utility
Aurelia, Iowa

We have audited the accompanying financial statements of Aurelia Municipal Electric Utility, a component unit of City of Aurelia, as of December 31, 2004 and 2003. These financial statements are the responsibility of the Utility's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Aurelia Municipal Electric Utility as of December 31, 2004 and 2003, and the changes in its financial position and the cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 11, Aurelia Municipal Electric Utility adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures.

The Utility, has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with Government Auditing Standards, we have also issued our report dated January 18, 2005 on our consideration of Aurelia Municipal Electric Utility's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Hengelman, Putzier & Co.

January 18, 2005

AURELIA MUNICIPAL ELECTRIC UTILITY
STATEMENTS OF NET ASSETS
DECEMBER 31, 2004 AND 2003

<u>ASSETS</u>	<u>2004</u>	<u>2003</u>
<u>UTILITY PLANT</u>		
Electric plant in service	\$1,741,801	\$1,735,047
Construction work in progress	-	2,240
	<u>1,741,801</u>	<u>1,737,287</u>
Less accumulated depreciation and amortization	<u>986,420</u>	<u>923,870</u>
Net utility plant	<u>755,381</u>	<u>813,417</u>
 <u>OTHER ASSETS</u>		
Membership	100	100
Deferred patronage refund receivable	<u>142,659</u>	<u>289,153</u>
	<u>142,759</u>	<u>289,253</u>
 <u>CURRENT ASSETS</u>		
Cash and cash equivalents	100,459	144,990
Temporary cash investments - at cost which approximates market value	625,000	300,000
Inventory	12,750	11,415
Accounts receivable	35,574	114,343
Accrued interest receivable	1,983	402
Prepaid insurance	<u>3,550</u>	<u>3,510</u>
	<u>779,316</u>	<u>574,660</u>
	<u>\$1,677,456</u>	<u>\$1,677,330</u>
 <u>LIABILITIES AND NET ASSETS</u>		
 <u>NET ASSETS</u>		
Invested in capital assets, net of related debt	\$ 755,381	\$ 813,417
Unrestricted	<u>868,485</u>	<u>808,392</u>
	<u>1,623,866</u>	<u>1,621,809</u>
 <u>CURRENT AND ACCRUED LIABILITIES</u>		
Accounts payable	24,138	21,193
Consumers deposits	2,675	2,670
Other current and accrued liabilities	<u>26,777</u>	<u>31,658</u>
	<u>53,590</u>	<u>55,521</u>
	<u>\$1,677,456</u>	<u>\$1,677,330</u>

The accompanying notes are an integral part of this statement.

AURELIA MUNICIPAL ELECTRIC UTILITY
STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2004 AND 2003

	<u>2004</u>	<u>2003</u>	<u>Increase (Decrease)</u>
<u>OPERATING REVENUE</u>			
Residential energy sales	\$ 281,745	\$ 276,944	\$ 4,801
Commercial energy sales	48,198	52,187	(3,989)
Other energy sales	163,853	156,930	6,923
Deferred patronage allocation	39,846	22,842	17,004
Other operating revenue	<u>3,029</u>	<u>1,615</u>	<u>1,414</u>
Total operating revenue	<u>536,671</u>	<u>510,518</u>	<u>26,153</u>
<u>OPERATING EXPENSES</u>			
Cost of power	249,591	195,811	53,780
Depreciation and amortization	62,550	68,882	(6,332)
Contract services	-	14,000	(14,000)
Distribution expenses - operations and maintenance	27,047	34,779	(7,732)
Administrative and general expense	147,030	122,113	24,917
Payment to the City in lieu of property taxes	<u>10,000</u>	<u>10,000</u>	<u>-</u>
Total operating expenses	<u>496,218</u>	<u>445,585</u>	<u>50,633</u>
Income from operations	40,453	64,933	(24,480)
<u>NONOPERATING REVENUE AND EXPENSE</u>			
Interest revenue	<u>8,271</u>	<u>8,379</u>	<u>(108)</u>
Change in net assets before unusual item	48,724	73,312	(24,588)
<u>UNUSUAL ITEM</u>			
Unbilled revenue	<u>(46,667)</u>	<u>-</u>	<u>(46,667)</u>
Change in net assets	2,057	73,312	<u>\$(71,255)</u>
Net assets, beginning of year	1,621,809	1,565,497	
Less: Residual equity transfer to Fire Department	<u>-</u>	<u>(17,000)</u>	
Net assets, end of year	<u>\$1,623,866</u>	<u>\$1,621,809</u>	

The accompanying notes are an integral part of this statement.

AURELIA MUNICIPAL ELECTRIC UTILITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
<u>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS:</u>		
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Cash received from customers	\$ 528,932	\$ 488,746
Cash paid to suppliers	(355,628)	(348,710)
Cash paid to employees	(81,351)	(63,436)
Patronage dividends received	<u>186,340</u>	<u>4,434</u>
Net cash provided by operating activities	<u>278,293</u>	<u>81,034</u>
 <u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>		
Additions to plant	(4,514)	(51,803)
Payment to Fire Department	<u>-</u>	<u>(17,000)</u>
Net cash used in capital and related financing activities	<u>(4,514)</u>	<u>(68,803)</u>
 <u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Interest received	6,690	8,626
Investments matured	100,000	500,000
Purchase of investments	<u>(425,000)</u>	<u>(500,000)</u>
Net cash provided by (used in) investing activities	<u>(318,310)</u>	<u>8,626</u>
 <u>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u>	(44,531)	20,857
 Cash and cash equivalents at beginning of year	<u>144,990</u>	<u>124,133</u>
 <u>CASH AND CASH EQUIVALENTS AT END OF YEAR</u>	<u>\$ 100,459</u>	<u>\$ 144,990</u>
 <u>RECONCILIATION OF OPERATING INCOME TO CASH PROVIDED BY OPERATING ACTIVITIES</u>		
Operating income	\$ 40,453	\$ 64,933
Adjustments to reconcile operating income to cash provided by operations:		
Depreciation and amortization	62,550	68,882
Unbilled revenue	(46,667)	-
Changes in assets and liabilities:		
Decrease (increase) in deferred patronage refund receivable	146,494	(18,408)
Decrease (increase) in accounts receivable	78,769	(29,951)
Increase in prepaid expenses	(40)	(492)
Decrease (increase) in inventory	(1,335)	103
Decrease in accounts payable and other accrued expenses	<u>(1,931)</u>	<u>(4,033)</u>
Total adjustments	<u>237,840</u>	<u>16,101</u>
 Net cash provided by operating activities	<u>\$ 278,293</u>	<u>\$ 81,034</u>

The accompanying notes are an integral part of this statement.

AURELIA MUNICIPAL ELECTRIC UTILITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Aurelia Municipal Electric Utility is a component unit of City of Aurelia. The Mayor appoints the trustees of the Utility subject to approval by the City Council. The City Council also approves the Utility's operating budget.

Aurelia Municipal Electric Utility distributes electric energy to consumers in Aurelia, Iowa. The Utility purchases all its power requirements from Western Iowa Municipal Electric Cooperative Association under a long-term contract.

The Utility's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standard Board.

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Reporting Entity

For financial reporting purposes, Aurelia Municipal Electric Utility has included all funds, organizations, agencies, boards, commissions, and authorities. The Utility has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Utility are such that exclusion would cause the Utility's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Utility to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the Utility. Aurelia Municipal Electric Utility has no component units which meet the Governmental Accounting Standards Board criteria.

Basis of Presentation

The accounts of Aurelia Municipal Electric Utility are organized as an Enterprise Fund. Enterprise Funds are used to account for operations (a) financed and operated in a manner similar to private business enterprises, where the intent of the governing body is the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Measurement Focus and Basis of Accounting

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

AURELIA MUNICIPAL ELECTRIC UTILITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Measurement Focus and Basis of Accounting - (Continued)

The Utility applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

The Utility distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Utility's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Cash, Investments, and Cash Equivalents

Investments are carried at cost which approximates market value. For the purpose of reporting cash flows, cash and cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Electric Plant

Electric plant is stated at cost. Cost of labor, materials, supervision, and other costs incurred in making improvements and replacements to the system, except minor replacements, are charged to the plant accounts while such costs incurred in making normal repairs, minor replacements, and maintaining the assets in efficient operating condition are charged to expense.

Memberships and Deferred Patronage Refund Receivable

The membership and deferred patronage allocations are investments for which it is not practicable to estimate a fair value. They are recorded at cost or face value assigned by the issuing entity and are recorded as an asset in the year to which they apply. They are redeemable only at the discretion of the issuing cooperative.

Inventory

Inventories are valued at the lower of average cost or market.

Administration

The Utility has contracted with City of Aurelia for use of city employees to do some administrative tasks.

Compensated Absences

Utility employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death, or retirement. The Utility's liability for accumulated vacation has been computed based on rates of pay in effect at December 31, 2004.

AURELIA MUNICIPAL ELECTRIC UTILITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Budget

The Board of Trustees annually adopts a budget on the accrual basis following required public notice and hearing in accordance with the Code of Iowa. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The following is a comparison of revenues, expenses, and changes in investment of municipality - actual to budget:

	<u>Actual</u>	<u>Budget</u>	Variance Favorable (Unfavorable)
Revenues:			
Use of money and property	\$ 8,271	\$ 8,000	\$ 271
Charges for services	496,825	530,000	(33,175)
Miscellaneous	39,846	42,750	(2,904)
	544,942	580,750	(35,808)
Expenses	542,885	568,050	25,165
Net	2,057	12,700	(10,643)
Net assets, beginning of year	1,621,809	1,573,231	48,578
Net assets, end of year	<u>\$1,623,866</u>	<u>\$1,585,931</u>	<u>\$ 37,935</u>

2. PLANT AND DEPRECIATION PROCEDURES

Listed below are the major classes of plant as of December 31, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Franchises	\$ 1,298	\$ 1,298
Land and land rights	8,967	8,967
Buildings	49,740	49,740
Distribution lines	1,405,820	1,399,066
Substation	117,581	117,581
Other equipment	<u>158,395</u>	<u>158,395</u>
Total electric plant	<u>\$1,741,801</u>	<u>\$1,735,047</u>

Provision for depreciation and amortization has been computed at straight-line rates over the estimated useful lives of the property.

3. DEPOSITS

The Utility's deposits in banks at December 31, 2004 were entirely covered by Federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

AURELIA MUNICIPAL ELECTRIC UTILITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

3. DEPOSITS - (Continued)

The Utility is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Utility had no investments meeting the disclosure requirements of Government Auditing Standards Board Statement Number 3.

4. TEMPORARY CASH INVESTMENTS

These funds were deposited as follows as of December 31, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Certificates of deposit	<u>\$625,000</u>	<u>\$300,000</u>

The certificates of deposit at December 31, 2004 bear interest at 2.05% to 2.60% and mature from April, 2005 to September, 2005.

5. CASH AND CASH EQUIVALENTS

These funds were deposited as follows as of December 31, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Demand deposits	<u>\$100,459</u>	<u>\$144,990</u>

These funds bear interest at .75%.

6. PENSION AND RETIREMENT BENEFITS

The Utility contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the Utility is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Utility's contribution to IPERS for the years ended December 31, 2004, 2003, and 2002 were \$4,337, \$3,856, and \$3,898, respectively, equal to the required contributions for each year.

AURELIA MUNICIPAL ELECTRIC UTILITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

7. SIGNIFICANT AREA CONCENTRATION OF CREDIT RISK

The Utility extends credit to its customers on terms no more favorable than standard terms of the industry it serves. A substantial portion of the Utility's customers are located in Aurelia, Iowa. The Utility's credit risks have been anticipated and management believes that adequate provision has been made for doubtful accounts.

8. ECONOMIC DEPENDENCY - MAJOR CUSTOMER

Aurelia Municipal Electric Utility sells a substantial portion of its electricity to one customer. During the years ended December 31, 2004 and 2003, sales to First Cooperative Association as a percentage of operating revenue, were 10.67% and 13.77%, respectively.

9. RISK MANAGEMENT

Aurelia Municipal Electric Utility is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

10. GUARANTY AGREEMENT

The Utility has agreed to act as guarantor of a \$100,000 loan to Aurelia Golf Club, Inc. from Western Iowa Municipal Electric Cooperative Association. The agreement became effective March 19, 2003. The balance due on this loan at December 31, 2004 is \$92,394.

The Utility has also agreed to act as guarantor of a \$100,000 loan to Koster Grain, Inc. from Western Iowa Municipal Electric Cooperative Association. The agreement became effective November 12, 2003. The balance due on this loan at December 31, 2004 is \$100,000.

11. ACCOUNTING CHANGE

For the year ended December 31, 2004, the Utility implemented Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures.

Implementation of these statements had no effect on the beginning balances of the Utility.

12. UNUSUAL ITEM

The retirement of patronage dividends from WIMECA for the years 1993 through 1999 increased the Utility's cash reserves by approximately \$186,000. It was decided to forgive customer charges for electric usage for the month of December. The amount that would have been billed to Utility customers is \$46,667 and is shown as an unusual item. This amount is also included in operating revenues.

Board of Trustees
Aurelia Municipal Electric Utility
Aurelia, Iowa

The primary purpose of our audit was to formulate an opinion on the financial statements taken as a whole. The additional information presented in the following pages was prepared on the basis of audit procedures applied in our examination of the financial statements. This information, while not necessary for fair presentation of the financial statements is, in our opinion, fairly stated in all material respects when considered in relation to the financial statements taken as a whole.

Henzelman, Pitzler & Co.

January 18, 2005

AURELIA MUNICIPAL ELECTRIC UTILITY
SCHEDULE OF MUNICIPAL ELECTRIC PLANT
DECEMBER 31, 2004

Schedule 1

	Utility Plant				Accumulated Depreciation or Amortization				
	Balance January 1, 2004	Additions	Retirements	Balance December 31, 2004	Balance January 1, 2004	Additions	Retirements	Balance December 31, 2004	Rate in Percent
Franchises	\$ 1,298	\$ -	\$ -	\$ 1,298	\$ 1,298	\$ -	\$ -	\$ 1,298	4.00
Land and land rights	8,967	-	-	8,967	-	-	-	-	-
Building	49,740	-	-	49,740	36,280	1,699	-	37,979	5.00
Distribution lines	1,399,066	6,754	-	1,405,820	661,234	46,332	-	707,566	3.33-12.50
Substation	117,581	-	-	117,581	114,314	3,267	-	117,581	3.33
Other equipment	<u>158,395</u>	<u>-</u>	<u>-</u>	<u>158,395</u>	<u>110,744</u>	<u>11,252</u>	<u>-</u>	<u>121,996</u>	5.00-20.00
Utility plant in service	1,735,047	6,754	-	1,741,801	923,870	62,550	-	986,420	
Construction work in progress	<u>2,240</u>	<u>(2,240)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Total utility plant	<u>\$1,737,287</u>	<u>\$ 4,514</u>	<u>\$ -</u>	<u>\$1,741,801</u>	<u>\$923,870</u>	<u>\$62,550</u>	<u>\$ -</u>	<u>\$986,420</u>	

AURELIA MUNICIPAL ELECTRIC UTILITY
COMMENTS ON STATEMENT OF NET ASSETS
DECEMBER 31, 2004

<u>UTILITY PLANT</u> - Cost	\$1,741,801	
Accumulated depreciation and amortization	<u>986,420</u>	<u>\$ 755,381</u>

Details of the Utility plant are shown in the preceding schedule.

<u>MEMBERSHIP</u>	<u>\$ 100</u>
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This account represents the cost of membership in the Western Iowa Municipal Electric Cooperative Association.

<u>DEFERRED PATRONAGE REFUND RECEIVABLE</u>	<u>\$ 142,659</u>
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The following is a summary of the deferred patronage due from WIMECA:

<u>Year</u>	<u>Amount</u>
2000	\$ 18,897
2001	33,581
2002	27,595
2003	23,044
2004	<u>39,542</u>
	<u>\$142,659</u>

<u>CASH AND CASH EQUIVALENTS</u>	<u>\$ 100,459</u>
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This balance consists of the following:

Now account bearing interest at .75%	<u>\$100,459</u>
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<u>TEMPORARY CASH INVESTMENTS</u>	<u>\$ 625,000</u>
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This consists of the following:

	<u>Interest Rate</u>	<u>Date</u>	<u>Due</u>	<u>Cost and Book Value</u>	<u>Maturity Value</u>
First Trust and Savings Bank, Aurelia, Iowa					
Certificate of deposit	2.50%	11-16-04	5-17-05	\$100,000	\$100,000
Certificate of deposit	2.50%	11-28-04	5-29-05	100,000	100,000
Certificate of deposit	2.60%	12-17-04	6-17-05	100,000	100,000
Heritage Bank, Aurelia, Iowa					
Certificate of deposit	2.25%	9-17-04	9-17-05	75,000	75,000
Certificate of deposit	2.25%	10-15-04	4-15-05	150,000	150,000
Certificate of deposit	2.05%	11-18-04	5-19-05	<u>100,000</u>	<u>100,000</u>
				<u>\$625,000</u>	<u>\$625,000</u>

INVENTORY

\$ 12,750

The inventory is based on a physical count taken as of December 31, 2004 and consists of the following:

Wire	\$11,250
Innerduct	<u>1,500</u>

\$12,750ACCOUNTS RECEIVABLE

\$ 35,574

Current customer accounts receivable	\$32,964
Past due accounts	<u>2,610</u>
Balance, December 31, 2004	<u>\$35,574</u>

ACCRUED INTEREST RECEIVABLE

\$ 1,983

This consists of interest accrued at December 31, 2004 on investments.

PREPAID INSURANCE

\$ 3,550

This consists of the unexpired portion of insurance premiums paid. Following is a summary of the coverage.

<u>Policy Type</u>	<u>Coverage</u>	<u>Amount</u>
Blanket Buildings and Personal Property	Fire and extended coverage 90% coinsurance	\$2,337,107* less \$1,000 deductible
Comprehensive general liability	Aggregate	\$2,000,000
	Fire damage	\$100,000
	Medical expense	\$5,000
Inland marine	Miscellaneous equipment	\$131,134
		less \$1,000 deductible
Auto coverage	Bodily injury and property damage	\$1,000,000
	Collision	Actual value
		less \$500 deductible
	Comprehensive	Actual value
	Uninsured motorists	\$50,000
	Underinsured motorists	\$50,000
Umbrella liability		\$2,000,000/\$2,000,000
		less \$10,000 retained
Worker's compensation		\$500,000
Linebacker		\$1,000,000/\$1,000,000
		less \$1,500 deductible

* Includes coverage of other property owned by City of Aurelia not connected with the Municipal Electric Utility.

This schedule is presented for information purposes only and no opinion is expressed as to the adequacy of coverage.

NET ASSETS\$1,623,866

Following is a summary of the changes in this account during 2004:

Balance, January 1, 2004	\$1,621,809
Change in net assets	<u>2,057</u>
Balance, December 31, 2004	<u>\$1,623,866</u>

ACCOUNTS PAYABLE\$ 24,138

This balance consists of the following:

WIMECA - December 2004 purchased power	\$22,171
Various, each less than \$1,000	<u>1,967</u>
	<u>\$24,138</u>

CONSUMERS' DEPOSITS\$ 2,675

The subsidiary records were reconciled with the control amount at December 31, 2004. The amount of the deposit varies and is based on one months' estimated usage.

OTHER CURRENT AND ACCRUED LIABILITIES\$ 26,777

This balance consists of the following:

Accrued payroll and vacations	\$ 2,640
Water charges due city	9,754
Sanitary landfill fees due city	4,212
Sewer rental fees due city	8,987
Storm water fees due City	465
State sales tax	<u>719</u>
	<u>\$26,777</u>

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Board of Trustees
Aurelia Municipal Electric Utility
Aurelia, Iowa

We have audited the financial statements of Aurelia Municipal Electric Utility, as of and for the year ended December 31, 2004, and have issued our report thereon dated January 18, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Aurelia Municipal Electric Utility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Utility's operations for the year ended December 31, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utility. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Aurelia Municipal Electric Utility's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Aurelia Municipal Electric Utility's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe item I-A-04 is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of the City of Aurelia and other parties to whom Aurelia Municipal Electric Utility may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Aurelia Municipal Electric Utility during the course of our audit.

Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Hungelman, Putzier & Co.

January 18, 2005

AURELIA MUNICIPAL ELECTRIC UTILITY

SCHEDULE OF FINDINGS

YEAR ENDED DECEMBER 31, 2004

Part I: Findings Related to the Financial Statements:

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

I-A-04 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that bank deposits, opening mail, recording receipts and disbursements, checks and payroll preparation, and bank reconciliations are all handled by either of two individuals.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the Utility should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – Office staff will continually cross-train and review procedures. The Electric Board closely monitors operating procedures to obtain the maximum internal control possible.

Conclusion – Response accepted.

I-B-04 Electronic Data Processing Systems - During our review of internal control, the existing control activities in the Utility's computer based systems were evaluated in order to determine that activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The following weaknesses in the Utility's computer based systems were noted:

The Utility does not have written policies for:

- password privacy and confidentiality,
- requiring password changes because software does not require the user to change logins/passwords periodically,
- requiring that users log off the system if not being used for extended periods of time,
- personal use of computer equipment and software.

Also, the Utility does not have a written disaster recovery plan and does not require back-up tapes to be stored off site in a fire proof vault or safe.

Recommendation - The Utility should develop written policies addressing the above items in order to improve the Utility's control over computer based systems. A written disaster recovery plan should be developed and back-up tapes should be stored off site in a fire proof vault or safe.

AURELIA MUNICIPAL ELECTRIC UTILITY

SCHEDULE OF FINDINGS

YEAR ENDED DECEMBER 31, 2004

Part I: Findings Related to the Financial Statements: (Continued)

REPORTABLE CONDITIONS: (Continued)

I-B-04 Electronic Data Processing Systems - (Continued)

Response – The City Clerk has implemented policies to ensure software installed is monitored and licensed to the City, to have each user have a password and change these passwords periodically, personal use of computer equipment, and disaster recovery plan. In addition, back-up tapes will be stored off site at the Library.

Conclusion – Response accepted.

I-C-04 Wage Overpayment – The Utility payroll is prepared bi-weekly and is based on twenty-six pay periods during the year. However, calendar year 2004 contained twenty-seven pay periods and, as a result, the electric superintendent received approximately \$1,648 more than the approved salary.

Recommendation – The Utility should determine how to resolve the overpayment and should monitor future payments to ensure that this will not occur again.

Response – At the January 19, 2005 board meeting of Aurelia Municipal Electric, a motion was made, seconded and passed to not change the number of pay periods or the amount paid for Howey's payroll in 2004. We will monitor closely pay periods used for each year in order that this error will not occur again.

Conclusion – Response accepted.

Part II: Other Findings Related to Statutory Reporting:

II-A-04 Official Depositories – A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended December 31, 2004.

II-B-04 Certified Budget – Utility expenditures during the year ended December 31, 2004 did not exceed the amount budgeted.

II-C-04 Questionable Expenditures – We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-D-04 Travel Expense – No expenditures of Utility money for travel expenses of spouses of Utility officials or employees were noted.

II-E-04 Business Transactions – No business transactions between the Utility and Utility officials or employees were noted.

II-F-04 Bond Coverage – Surety bond coverage of Utility officials and employees is in accordance with statutory provisions. The amount of all bonds should be periodically reviewed to insure that the coverage is adequate for current operations.

AURELIA MUNICIPAL ELECTRIC UTILITY

SCHEDULE OF FINDINGS

YEAR ENDED DECEMBER 31, 2004

Part II: Other Findings Related to Statutory Reporting: (Continued)

- II-G-04 Trustee Minutes – The minutes record was examined and appeared to give a condensed accurate account of business transacted by the Board of Trustees. No transactions were found that we believe should have been approved in the Trustee minutes but were not.
- II-H-04 Deposits and Investments – We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utility's investment Policy.